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FISCAL IMPACT STATEMENT

LS 7774 **NOTE PREPARED:** Jan 20, 2003
BILL NUMBER: SB 555 **BILL AMENDED:**

SUBJECT: Assessment of low income rental housing.

FIRST AUTHOR: Sen. Kenley **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill requires the determination of the true tax value of low income rental housing using the capitalization of income method of valuation under rules of the Department of Local Government Finance (DLGF).

Effective Date: July 1, 2003.

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds and any increase in the assessed value base will increase the property tax revenue for these two funds. As explained below in *Explanation of Local Revenues,* this bill could result in a change in AV ranging from a reduction of $80 M to an increase of $20.5 M. The annual change in state revenue beginning in CY 2005 is estimated to range from a reduction $2,600 to an increase of $700.

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill would require the DLGF to include instructions for the valuation of low income housing using the capitalization of income method in its assessment rules. The fiscal impact of this measure depends on the final form of the DLGF's rule. For instance, according to the DLGF, a strict use of capitalization of income could result in a 10%-20% increase in the AV of low income housing as opposed to using the current pricing schedules. If, however, only cash rents and not grants or credits were considered as income, then the assessed value would fall by an estimated 78%. This estimate is based on the number of low income housing units, average rents and average housing benefits as reported by the Census Bureau. The change in assessed value under this bill would range from a reduction of $80 M to an increase of $20.5 M.

A reduction of the assessed value base causes a shift of the property tax burden from the taxpayers receiving the reduction to all taxpayers in the form of an increased tax rate. An $80 M reduction in assessed value would cause a $0.0006 increase in the statewide average net tax rate, causing a shift to other taxpayers of about $1.6 M in CY 2005.

An increase of the assessed value base causes a shift of the property tax burden from all taxpayers to the taxpayers receiving the reduction in the form of a reduced tax rate. A $20.5 M increase in assessed value would cause a $0.0001 reduction in the statewide average net tax rate, causing a shift from other taxpayers of about $400,000 in CY 2005.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be (1) reduced by the product of the fund rate multiplied by the AV reduction amount applicable to that fund or (2) increased by the product of the fund rate multiplied by the increased AV amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County and township assessors.

Information Sources: Kurt Barrow, Director of Assessments, Department of Local Government Finance, (317) 232-3777; *Statistical Abstract of the United States*, Bureau of the Census; Local Government Database.

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